The purpose of this due diligence is to examine potential DFS risks, which includes focus on consumer risks, from digitally delivered financial products and services for the unbanked and/or underserved customers/consumers. The due diligence is intended to be an iterative document, given evolving innovations in digital financial services and financial technology. It is based on actual projects and portfolios, plus evolving industry and global evidence. **Actual findings will provide ongoing due diligence refinements of risks and mitigants provided in Annex 2.**

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>Due Diligence Checklist</th>
<th>Company Documents Source References</th>
</tr>
</thead>
</table>
| Regulations, Governance and Management | • Does a regulatory framework for financial consumer protection exist? If so, which regulatory agency performs this function? Is it a separate agency or an integrated agency that performs both prudential and consumer protection oversight?  
• If a regulatory framework is weak or nonexistent, are there industry self-regulation (voluntary) codes of conduct that are adhered by financial service providers?  
• How effectively are consumer protection regulations enforced (monitoring and reporting, grievance/redress procedures, sanctions)?  
• Role of Board and Risk Management in overseeing risks related to consumer protection issues. How are risks/mitigants reported by management to Board? | • Consumer Protection Regulations  
• Data Privacy & Security Regulations  
• Code of Conduct  
• Risk Governance Framework  
• Complaints Reports  
• National Ombudsman, Local Consumer Reports |
| Responsible Finance Framework         |                                                                                         |                                                                                                |
| Strategy                              | • Is there a digital strategy?  
• What is covered: channels, risk etc. Does it encompass an overall digital transformation or point solutions?  
• How was it formulated? What departments/executives were involved?  
• Has it been reviewed/approved at board level?  
• How often is progress reviewed by senior management, discussed at board?  
• Please describe the digital strategy and IT governance framework  
• What role does technology play in the Bank? Build or buy?  
• What structures are in place to drive the digital strategy and innovation more broadly?  
• Is there a cross-business unit Project Management Office (PMO) or task force?  
• How is the bank organized with regard to use of technology?  
• How does the Chief Technology Officer (CTO) interface with other business units to drive innovation?  
• Does the board have oversight of digital threats, and if so, how is the Board informed?  
• Is there a structure in place for external partnering with technology innovators? Have any such partnerships been completed? | • Alternate Delivery Channel Process and Procedures  
• ADC Policy  
• Digital / IT roadmap  
• Digital /IT Self-Assessment  
• Digital /IT/ Systems Audit policy  
• Digital Governance Policy  
• Digital / IT procurement Policy  
• Digital Security Policy  
• SDLC Policy  
• PCIDSS and other industry compliance processes  
• SMAC Strategy document |
## Operations

### Customer Acquisition
- How do you encourage customers to migrate to mobile banking? What are the key strategies and drivers of your mobile banking offering?
- How effectively the SMAC (social/mobile/analytics/cloud) model is used for your digital marketing strategy to improve retail banking volume and revenue?
- What are your top investment priorities in mobile banking?
- What is the year-on-year growth in percent of transaction volume initiated from mobile banking?
- Who is responsible for business development/sales? What is the delivery channels strategy to reach clients (branches vs. low costs channels)?
- Does customer acquisition assess multiple lending or debt/income thresholds – how and what are the indicators used? Are credit bureaus utilized, if so how?
- Is alternative data used for credit scoring, if so what data is collected and how is it used to assess capacity to repay.
- Describe pricing by product; how is pricing determined by product (APR, EIR, total cost of loan, etc)
- Does the company publicly disclose key pricing by product, does it disclose pricing through multiple media, i.e. website, digital/mobile, receipts, documents (loan agreement, insurance policy), etc.
- Does the company provide the client a Key Facts Statement (Truth in Lending document) at the time of acquisition and prior to transaction/sale? What does it include?
- Are terms and conditions for clients in simple, local language, how are they communicated at the time of acquisition?
- Informed consent: how does the company implement this prior to authorizing transactions? What ways is consent obtained?
- What percent of your products and services are available online? Which products and services are offered digitally? Can you break it down by the three different business segments?
- Is your account opening and on-boarding process automated?
- What products can be processed straight through in fully digital form? For which products are paper processes required, and why (e.g. regulatory requirement for wet signature)?
- Describe the unique features of your retail and corporate banking website.
- Single sign-on or straight through processing
- Does it have the following interactive features? – Surveys, tools, calculators, text chat, video chat, ability to download statements in different formats, Consolidated dashboard, Analytics, Business intelligence reporting, personalization features, Compatibility with different internet browsers, Compatibility with different operating systems, Links/information from newsfeeds, integration with external

### Pricing
- How equally, efficiently and cost-effectively is the pricing strategy designed?:
  - Key Facts Statement
  - Contract Agreement
  - Credit Policy
  - Marketing brochures and materials, branch/agency posters
  - Financial Reports
  - Operational Reports

### Transparency
- Does the company provide the client a Key Facts Statement (Truth in Lending document) at the time of acquisition and prior to transaction/sale? What does it include?
- Are terms and conditions for clients in simple, local language, how are they communicated at the time of acquisition?
- Informed consent: how does the company implement this prior to authorizing transactions? What ways is consent obtained?

### Disclosure
- How equally, efficiently and cost-effectively is the pricing strategy designed?:
  - Key Facts Statement
  - Contract Agreement
  - Credit Policy
  - Marketing brochures and materials, branch/agency posters
  - Financial Reports
  - Operational Reports

### Product Development
- What percent of your products and services are available online? Which products and services are offered digitally? Can you break it down by the three different business segments?
- Is your account opening and on-boarding process automated?
- What products can be processed straight through in fully digital form? For which products are paper processes required, and why (e.g. regulatory requirement for wet signature)?
- Describe the unique features of your retail and corporate banking website.
- Single sign-on or straight through processing
- Does it have the following interactive features? – Surveys, tools, calculators, text chat, video chat, ability to download statements in different formats, Consolidated dashboard, Analytics, Business intelligence reporting, personalization features, Compatibility with different internet browsers, Compatibility with different operating systems, Links/information from newsfeeds, integration with external
Investor Guidelines – Due Diligence – draft version 1.0
Annex 1 - Guidelines for Investing in Responsible Digital Financial Services

|vendors for utilities bill payment, tax payment, etc, Google maps or any other geo-location based systems
|• What risk metrics are utilized to improve product development, decision making and, more importantly, to position the organization to achieve its performance goals?
|• Provide details on the governance process for business-critical applications to ensure that financial-reporting systems of the organization are tested whenever changes are made to the system or its operating environment and only approved and tested changes are made to production.
|• How does the company/bank ensure that disaster recovery plans are adequate, given changing business operations practices or expectations (reference to IT/Systems below). |

**Product Specific – Annex 1A**

- Which are the products that are leveraging new technology platforms? E.g. Credit scoring, trade finance, payments technology...
- What is the typical process of developing a product, including pricing? (persons involved; product managers?)
- How does the bank decide which channel to use to sell a product?
- Does the bank understand profitability of individual products and channels?
- Which products and services are offered digitally? Which additional products and services are scheduled to be digitized? (see Annex 1A)
- What is the year-on-year growth in the percent of customers using your digital platform? How does this compare to your targets?
- What is the year-on-year growth in total revenue from digital platforms across the various products? How does this compare to your targets?
- What has been the reduction in Cost of Acquisition (CAC) per customer across the various products as a result of using digital platforms across the various products?

**Customer Service**

| Is there a customer feedback process, reporting and customer complaints resolution process? [Annex 1B] |
| Is there a written policy that requires customer complaints to be taken seriously, fully investigated and resolved? |
| How many days does it typically take to address a customer complaint? |
| What are the key customer issues, how many? |
| How is customer service for agents handled? |
| Does the company/agents provide contact details, how is this communicated to customers |
| Describe processes to address mistaken or unauthorized transactions. |

**Customer Services Manual (Call Center)**

- HR Training
- Customer Management Systems
- SLAs
- Complaint Handling Policy
- Consumer Protection Policy
## HR & Training

**Consumer Education (ADC, mobile networks)**

- Dedicated training on Client Protection Standards? Are agents provided with training on how to communicate and educate their clients to ensure clients make well informed financial decisions?
- Modules for induction and refresher trainings and/or by Provincial Manager/Branch Manager
- Does the company and its agents/operators provide basic financial awareness for clients, beyond basic mobile use (password and PIN protection, etc).

## Code of Conduct for Consumer Protection

- Training Program
- Staff Performance Appraisals

## IT/Systems

**Data Privacy & Security Innovation**

- What data does the company collect, how and where is it managed?
- Does the company adhere to local privacy and security standards, if so which one?
- Does the company inform clients on how their personal information will be used, including sharing of their personal data, loan history with the credit bureau (CB) and other third party providers as relevant?
- Can you share a detailed system architecture diagram of the current IT environment?
- Please share an organogram including details on various staff experience in the IT department and any IT staff deployed or seconded to other departments
- Which CBS platform do you have and what version is currently installed?
- Please detail all the modules you are consuming under the current CBS platform
- Please provide details on any external platforms you are using such as card platforms, loan systems, pricing engines if outside of CBS, CRM platforms etc?
- Please provide information on the current CBS pricing environment
- Do you have access to the business requirements documents that informed the various platform choices including CBS?
- Please detail any other internal systems used for specific products or channels, and how these connect to the CBS
- Please provide details on any external platforms you are using such as card platforms, loan systems, pricing engines if outside of CBS, CRM platforms etc?
- How is data from across systems and platforms aggregated and managed for risk management, financial reporting and management reporting? Are reporting systems comprehensive, flexible and configurable as business needs change?
- Do you have access to the business requirements documents that informed the various platform choices including CBS?
- Please detail any platforms or technologies related to risk and risk mitigation
<table>
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<tr>
<th>• Please describe the disaster recovery infrastructure and protocols&lt;br&gt;• What are the current country regulations around cloud platforms&lt;br&gt;• Please define change management protocols for IT related projects including the UAT, SIT and production environments&lt;br&gt;• How does IT enable remote authentication for various channels and automated processes?&lt;br&gt;• What is the banks view on API based approaches?&lt;br&gt;• Is there an Omni channel approach and how is IT supporting this?&lt;br&gt;• If applicable what is the banks view on cloud based solutions?&lt;br&gt;• What is the executive view on engaging innovative Fintech’s for certain bank services&lt;br&gt;• What is the strategy if any of lowering the customer segmentation supported by lite touch IT infrastructure&lt;br&gt;• What innovative new product and channel developments are being supported by IT&lt;br&gt;• What is the 3 year view on the overall IT plan&lt;br&gt;• Regarding strategic risk, how will new technologies impact your ability to take advantage of business strategy?</th>
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<tbody>
<tr>
<td>Innovation&lt;br&gt;• What is the banks view on API based approaches?&lt;br&gt;• Is there an Omni channel approach and how is IT supporting this?&lt;br&gt;• If applicable what is the banks view on cloud based solutions?&lt;br&gt;• What is the executive view on engaging innovative Fintech’s for certain bank services&lt;br&gt;• What is the strategy if any of lowering the customer segmentation supported by lite touch IT infrastructure&lt;br&gt;• What innovative new product and channel developments are being supported by IT&lt;br&gt;• What is the 3 year view on the overall IT plan&lt;br&gt;• Regarding strategic risk, how will new technologies impact your ability to take advantage of business strategy?</td>
</tr>
<tr>
<td>Data Governance&lt;br&gt;• Do you have a data governance group? Please share the charter of this group if it exists.&lt;br&gt;• Please share your written data governance policy, covering data gathering, storage, retention, and privacy.&lt;br&gt;• What are the data handling practices at branch offices and operation centers to ensure that IT policies and standards are applied for safe processing, transportation, and storage of customer data?&lt;br&gt;• How do you ensure that suppliers (third parties with custody of or access to bank’s regulated or sensitive data) have sufficient data protection?</td>
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**Data Analytics**
- What data analysis capabilities exist, including software?
- Do you have a dedicated data analytics team with a data scientist?
- How closely does data inform product and channel development decisions?
- What segmentation capability currently exists using the available data?
- What are the data handling practices at branch offices and operation centers to ensure that IT policies and standards are applied for safe processing, transportation, and storage of customer data?
- Can you share a data defined segmentation of the bank based on customer, product, channel and revenue?
- Are you able to use current data to unlock unit based costing for pricing decisions across all channels and products?
- How do you ensure that suppliers (third parties with custody of or access to bank’s regulated or sensitive data) have sufficient data protection?

| Risk & Audit Controls | Risk management process: Please describe to what extent risk management is digitized, i.e. what manual processes in risk management functions have become digitized.
| (ADC, mobile networks) | Regulatory risk: what are the key regulatory and legal compliance issues applicable to the Bank in its jurisdiction(s) regarding digital channels? What license and regulations are applicable (e.g., banking license, e-money, money transfer operator, agent, e-signature, etc.) if any beyond the regular banking license?
| | What are the KYC and AML requirements for customer acquisition?
| | Cyber Risk & Digital Fraud Abatement: describe how cyber risk is assessed and mitigated for new channels, and generally how cyber risk is monitored across the bank, including the protection of intellectual property
| | Consumer privacy: please describe the efforts to mitigate data breaches and protect consumer privacy
| | Does the Risk department have responsibility in the decisions for IT Governance and Strategy, and or technology initiatives?
| | Have there been incidents of fraud? How is fraud detected and dealt with?
| | Operational Risk – are operational risk events monitored with digital tools and underlying data processed digitally to manage operational risk? To what degree are key operational processes manual vs. managed digitally?

| Risk Management Policies and Procedures | Audit Reports | Compliance Reports | Customer Management Reports |
| Does the risk management framework include client risks (overindebtedness, customer complaints, etc); how are customer risks monitored, what indicators are used and how are they reported (Annex 1B)? |
| Does Internal Audit include client interaction for the purpose of collecting feedback and understanding customers' financial awareness? |
| Does Internal Audit interview a sample of clients and beneficiaries to gauge satisfaction level with products and services, delivery channels, awareness of terms and conditions, fraud and grievance process to resolve customer complaints? |
| How frequent are Agent/branch audit visits undertaken? |
| How is audit report used, is it systematically provided to Board and Management for review |
| **Cyber Security** |
| Has your organization faced any cybersecurity incident in the past 3 years? If so, please provide a description of the incident including 1) type of incident (e.g. DDOS) 2) impact of incident 3) how impact was communicated, contained and resolved 4) actions taken to prevent future incidents. |
| What services and information are currently available online or are planned to be made available in the next 12 months? |
| Has an IT Strategy been developed based upon current and future business needs? |
| Which certifications / third party assertion does your organization maintain (e.g. ISO 27001, PCI DSS, etc.)? |
| Which IT services does your organization outsource? |
| Does your Internal Audit Department perform regular IT Audits? |
| Have there been any instances of Fraud in the last five years which involved the use of IT systems? If so, please provide the date, impact, involved parties, identified root cause and remedial action taken for each fraud instance. |
| Have IT change management processes and procedures been documented and implemented? |
| **IT/Cyber Security Strategy** |
Annex 1A – Example: Digital Product Development/Plan

<table>
<thead>
<tr>
<th>Products</th>
<th>Digital Channels</th>
<th>2016-17 Growth (Customers)</th>
<th>2016-17 Growth (Revenue)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retail</strong></td>
<td></td>
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<tr>
<td>Credit Cards</td>
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<td>Home Loans</td>
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<td>Auto Finance</td>
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<td>Education Finance</td>
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<td>Personal Bank</td>
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<tr>
<td>Accounts</td>
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<tr>
<td>Remittances</td>
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<tr>
<td><strong>Corporate</strong></td>
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<tr>
<td>Business Credit</td>
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<tr>
<td>Equipment Finance</td>
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<tr>
<td>Commercial Term</td>
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<tr>
<td>Lending</td>
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<tr>
<td>Real Estate Finance</td>
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<tr>
<td>Cash Management</td>
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<tr>
<td>Services</td>
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<tr>
<td>Trade Finance</td>
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<tr>
<td>Payments Services</td>
<td></td>
<td></td>
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<tr>
<td>Cards Services</td>
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Annex 1B – Reporting

Based on due diligence findings, reporting will adapt existing local company/industry formats and standard indicators in the global financial inclusion sector, namely from: MIX financial indicators, operational efficiency and ADC/DFS pilot indicators; social performance indicators (women, urban, rural); consumer protection indicators (complaints resolution, customer feedback, financial education) as relevant.

Critical will be to not duplicate, but focus on practical business models/risks. Additional focus (based on working group feedback) may include the following, and will be defined in greater detail based on actual projects and industry evidence.

- Percentage of women clients
- Growth rate of women clients
- New women clients during the year
- Retention rate of women clients
- Percentage female employees
- Percentage women in senior management
- Percentage women on the BOD
- Return on Investment (RoI)
- Time to process complaints
- Time to process a transaction and other process improvements
- Cost Income Ratio